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BEFORE THE ARIZONA CORPORATION COMMISSION

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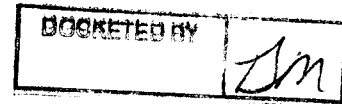
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BOB BURNS
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COMMISSIONER

IN THE MATTER OF THE APPLICATION OF
ARIZONA WATER COMPANY, AN ARIZONA
CORPORATION, FOR A DETERMINATION
OF THE FAIR VALUE OF ITS UTILITY
PLANT AND PROPERTY, AND FOR
ADJUSTMENTS TO ITS RATES AND
CHARGES FOR UTILITY SERVICE
FURNISHED BY ITS NORTHERN GROUP
AND FOR CERTAIN RELATED
APPROVALS.

Docket No. W-01445A-12-0348

Arizona Corporation Commission
DOCKETED

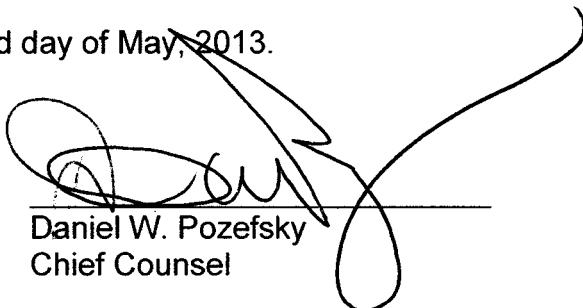
MAY 3 2013



RUCO'S NOTICE OF FILING

The RESIDENTIAL UTILITY CONSUMER OFFICE ("RUCO") hereby provides notice of
filing the Responsive Settlement Testimony of William A. Rigsby, in the above-referenced
docket.

RESPECTFULLY SUBMITTED this 3rd day of May, 2013.


Daniel W. Pozefsky
Chief Counsel

1 AN ORIGINAL AND THIRTEEN COPIES
2 of the foregoing filed this 3rd day
3 of May, 2013 with:

4 Docket Control
5 Arizona Corporation Commission
6 1200 West Washington
7 Phoenix, Arizona 85007

8 COPIES of the foregoing hand delivered/
9 mailed this 3rd day of May, 2013 to:

10 Sarah Harpring
11 Hearing Division
12 Arizona Corporation Commission
13 1200 West Washington
14 Phoenix, Arizona 85007

15 Janice Alward, Chief Counsel
16 Legal Division
17 Arizona Corporation Commission
18 1200 West Washington
19 Phoenix, Arizona 85007

20 Steven M. Olea, Director
21 Utilities Division
22 Arizona Corporation Commission
23 1200 West Washington
24 Phoenix, Arizona 85007

25 Steven A. Hirsch
26 Stanley B. Lutz
27 Bryan Cave LLP
28 Two North Central Avenue, Suite 2200
29 Phoenix, AZ 85004

30 By Cheryl Fraulob
31 Cheryl Fraulob
32
33
34

ARIZONA WATER COMPANY
DOCKET NO. W-01445A-12-0348

RESPONSIVE SETTLEMENT TESTIMONY
OF
WILLIAM A. RIGSBY
IN
OPPOSITION TO THE SETTLEMENT AGREEMENT

ON BEHALF OF
THE
RESIDENTIAL UTILITY CONSUMER OFFICE

MAY 3, 2013

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EXECUTIVE SUMMARY

RUCO Chief of Accounting and Rates, William Rigsby, continues to recommend that the Arizona Corporation Commission ("ACC" or "Commission") reject the proposed settlement agreement ("Settlement Agreement") on the Arizona Water Company Northern Group rate case which adopts a 10.00 percent return on common equity in addition to both a System Improvement Benefits ("SIB") mechanism and a declining usage adjustment to the Company's test year billing determinants.

For the reasons set forth in his responsive testimony, Mr. Rigsby continues to advocate that the Commission adopt an 8.80 percent cost of equity capital that takes into consideration the shift in risk associated with both the SIB mechanism and a possible windfall that could result from the Settlement Agreement's adoption of the Company-proposed declining usage adjustment.

1 **INTRODUCTION**

2 **Q. Please state your name, occupation, and business address.**

3 A. My Name is William A. Rigsby. I am the Chief of Accounting and Rates
4 for the Residential Utility Consumer Office ("RUCO") located at 1110 W.
5 Washington, Suite 220, Phoenix, Arizona 85007.

6
7 **Q. Have you filed any prior testimony on the AWC Northern Group
8 Settlement Agreement?**

9 A. Yes. I filed direct testimony in opposition to the Settlement Agreement On
10 April 26, 2013.

11

12 **Q. Please state the purpose of your testimony.**

13 A. The purpose of my testimony is to respond to ACC Staff witness Steven
14 M. Olea's testimony on the five percent declining usage adjustment to the
15 Company's test year billing determinants which is addressed in Section 4
16 of the Settlement Agreement.

17

18 **DECLINING USAGE ADJUSTMENT**

19 **Q. Do you agree with Mr. Olea's position that the reduction in water
20 sales experienced by AWC is a direct result of the Commission's
21 policy on inclining block tiered rate designs?**

22 A. No. I respectfully disagree with Mr. Olea on this point.

23

1 **Q. Why does RUCO disagree with Mr. Olea on this point?**

2 A. RUCO is not convinced that the declining usage that AWC is experiencing
3 is necessarily a result of the Commission's inclining block tiered rate
4 designs. For all we know the decline in usage could be the result of
5 ratepayers responding to the overall increases in rates that have been
6 authorized by the Commission in years past. The downturn in the
7 economy could also be a contributing factor to the decline in water sales.
8 As stated in the direct testimony of RUCO witness Robert B. Mease in the
9 underlying rate case, RUCO does not believe that the level of declining
10 usage per customer will continue into the future and that the declining
11 usage results from conservation efforts. Furthermore, RUCO does not
12 believe that any projected or forecasted declining usage will result in
13 AWC's inability to earn its authorized return from ratepayers. The
14 potential for ongoing conservation will be mitigated and usage levels
15 stabilized over time, thus minimizing the declining usage that impacts the
16 Company's revenues.

17
18 **Q. What was ACC Staff's position on the Company-proposed declining**
19 **usage adjustment in the underlying case?**

20 A. ACC Staff recommended that the Commission reject all normalization
21 adjustments that were based on AWC's estimates of trends in use per
22 customer, which were based on slope coefficients determined by
23 statistical regression analysis. According to ACC Staff witness Jeffrey M.

1 Michlik, the coefficients vary significantly when the Company's analysis is
2 conducted over various time frames (e.g. ten versus five years). Mr.
3 Michlik concluded that the adjustment cannot be considered known and
4 measurable.

5
6 **Q. What was RUCO's position on the regression analysis that the**
7 **Company relied on to make its case for a declining usage adjustment**
8 **in AWC's prior Eastern Group case?**

9 A. During the Eastern Group rate case, I testified that to go along with the
10 Company's declining usage adjustment to actual test year billing
11 determinants you almost have to have total faith in the predictive ability of
12 Mr. Reiker's regression analysis model. That said, I did not believe then,
13 and I do not believe now, that making adjustments to test year billing
14 determinants that are known and measurable is the proper thing to do.

15
16 **Q. Did ACC Staff take a similar position in AWC's Eastern Group Case?**

17 A. For the most part yes. ACC Staff witness Bentley Erdwurm recommended
18 that AWC's adjustment be rejected for all Eastern Group customers with
19 the exception of the Superstition system's commercial class customers for
20 the same reasons presented by Mr. Michlik in the underlying rate case.

21
22 ...
23

1 **Q. Did the Administrative Law Judge reject the Company-proposed**
2 **declining usage adjustment in the Eastern Group case?**

3 A. Yes. In her Recommended Opinion and Order, Judge Sarah N. Harpring
4 rejected the declining usage adjustment stating the following:

5 "It is possible that, with more complete and transparent
6 information as to the normalization adjustment methodology and
7 its impacts, the Commission might find such an adjustment to be
8 appropriate in the future. The Commission understands that a
9 consistent pattern of declining usage, and the diminished
10 revenues that follow, could jeopardize AWC's ability to recover
11 its cost of service, which is contrary to the best interests of AWC,
12 AWC's customers, and the Commission. However, the
13 Commission will not approve such an adjustment without first
14 being confident that the changes in usage are known and
15 measurable, that any corresponding changes in costs have been
16 factored into the normalization calculation so as to avoid
17 mismatches and over-recovery, and that the Commission is
18 aware of the actual impacts of the adjustment on proposed rates.

19
20 Based upon the evidence presented, and the preceding
21 discussion, we deny AWC's requested downward adjustment of its
22 TY billing determinants."
23

24 **Q. Did the Commission adopt the Administrative Law Judge's**
25 **recommendation on the Company-proposed declining usage**
26 **adjustment?**

27 A. Yes. The same language cited above from Judge Harpring's
28 Recommended Opinion and Order also appears in Decision No. 73736,
29 dated February 20, 2013.

30

31

32 ...

33

1 **Q. Did the Company provide more complete and transparent**
2 **information as to the normalization adjustment methodology in the**
3 **underlying rate case?**

4 **A. Based on Mr. Michlik and Mr. Mease's recommendations, I would say no.**
5

6 **Q. Does RUCO continue to take the same position on the declining**
7 **usage adjustment that you presented in your direct testimony?**

8 **A. Yes.**
9

10 **Q. Based on the Settlement Agreement testimony offered by AWC and**
11 **ACC Staff, is RUCO making any changes to any of the other**
12 **recommendations that you presented in your direct settlement**
13 **testimony?**

14 **A. No.**
15

16 **Q. Does your silence on any other issues, matters or findings**
17 **addressed in the testimony of the parties who support the Settlement**
18 **Agreement constitute your acceptance of the Company's positions**
19 **on such issues, matters or findings?**

20 **A. No, it does not.**
21

22 **Q. Does this conclude your testimony on the Settlement Agreement?**

23 **A. Yes, it does.**